GAGAS Performance Audits: Discussion of Concepts to Consider When Auditing Public Functions and Services

The introductory chapter of *Government Auditing Standards* (GAGAS)[1] outlines five concepts describing how public officials are to provide functions and services: effectively, efficiently, economically, ethically, and equitably. When planning, gathering and assessing evidence, and reporting audit results, auditors may focus on one or more of these concepts. The following discussion is intended to assist auditors when developing audit objectives for performance audits of government programs and activities.[2]

> This discussion is designed to help auditors understand and apply the concepts cited above for performance audits conducted in accordance with GAGAS. This discussion does not contain requirements, does not amend GAGAS, and is not considered interpretive guidance, as defined in chapter 2 of GAGAS.

GAGAS Paragraphs

Paragraph 1.02:

> The concept of accountability for use of public resources and government authority is key to our nation's governing processes. Management and officials entrusted with public resources are responsible for carrying out public functions and providing service to the public **effectively, efficiently, economically, ethically, and equitably** within the context of the statutory boundaries of the specific government program. *[Emphasis added.]*

Paragraph 1.03:

> As reflected in applicable laws, regulations, agreements, and standards, management and officials of government programs are responsible for providing reliable, useful, and timely information for transparency and accountability of these programs and their operations. Legislators, oversight

[1]GAO, *Government Auditing Standards: 2018 Revision*, GAO-21-368G (Washington, D.C.: April 2021)

[2]The concepts cited may also be applicable to other GAGAS engagements, based on the auditors' judgments. This discussion is limited to considering these concepts in performance audits.

bodies, those charged with governance, and the public need to know whether (1) management and officials manage government resources and use their authority properly and in compliance with laws and regulations; (2) government programs are achieving their objectives and desired outcomes; and (3) government services are provided **effectively, efficiently, economically, ethically, and equitably**. *[Emphasis added.]*

Discussion

Government administration best serves the collective interest of the public when it is effective, efficient, economical, ethical, and equitable. Auditors help inform legislators, oversight bodies, those charged with governance, and the public about whether public services are being provided consistent with these concepts. Government auditing can contribute to accountability and can help improve government administration by identifying deficiencies and recommending enhancements to achieve effective, efficient, economical, ethical, and equitable outcomes, when appropriate within the context of the audit objectives. As such, it is important for auditors to understand the concepts below as they relate to administering government programs or activities and how they can assess or address these expectations of government performance in conducting their performance audits.

The examples that follow the discussion of each concept illustrate the distinctions between these concepts. In a performance audit, it is common practice to incorporate more than one of these concepts when conducting the audit.

Effective

The administration of a government program or activity is ***effective*** when it achieves the intended results. A performance audit that focuses on the effectiveness of a program or activity seeks to establish a cause-and-effect relationship between the operation of the program or activity and achieving its stated objectives. Achieving the objectives does not guarantee that the program or activity was effective unless the auditors can establish that the program or activity caused, or contributed to, the desired outcome.

Example: In a performance audit examining how effective a housing voucher program was in achieving its goal of improving economic outcomes for recipients, auditors may determine whether receiving housing vouchers led to better subsequent economic outcomes for recipients than those of similarly situated individuals who did not receive vouchers.

Example: In a performance audit assessing the effectiveness of an after-school program targeted at helping students improve their reading proficiency, auditors may examine the extent to which participants' reading levels improved relative to baseline data from before they joined the program.

Efficient

The administration of a government program or activity is ***efficient*** when it gets the most value from available resources. When a performance audit focuses on efficiency, auditors examine whether the resources used to administer a program or activity have been put to optimal or satisfactory use, or whether the same or similar results could have been achieved more timely or with fewer resources.

Example: In a performance audit assessing a disaster relief agency's mobilization of resources to respond to a disaster, auditors may assess the disaster relief agency's timeliness in providing relief compared to its own previous performance or the performance of other similarly situated agencies that have responded to comparable disasters.

Example: In a performance audit assessing a consumer protection agency's response to consumer complaints, auditors may assess whether the agency's efforts to streamline its processes resulted in improved timely resolution of complaints.

Example: In a performance audit assessing the time a state needs to process unemployment benefits targeted at helping those in need, auditors may assess how long the process takes from receipt of the unemployment application to the applicant's receipt of the benefit, including steps such as verifying required information.

Economical

The administration of a government program or activity is ***economical*** when it minimizes the costs of resources used in performing its functions while meeting timeliness and quality considerations for those resources. When auditing economy, auditors primarily focus on the costs of inputs rather than on the outcomes achieved.

Example: In a performance audit examining an agency's international travel expenses, in addition to assessing the design of internal controls and compliance with expense guidelines, auditors may test whether, for a sample of trips, bookings of *equivalent airline tickets and hotel rooms could be found at a lower cost.*

Example: In a performance audit assessing an agency's acquisition practices, auditors may examine whether the agency's decisions regarding purchasing, leasing, or reimbursing employees for the costs of acquiring various supplies or equipment achieved the lowest cost while meeting applicable requirements.

Ethical

The administration of a government program or activity is ***ethical*** when it advances the collective interest of the public rather than private gain and is conducted with honesty, integrity, and impartiality. Laws and regulations often specify rules of ethical conduct. Therefore, audits examining the ethical administration of a program or activity may involve assessing compliance with such laws and regulations. Fraud in administering a government program or activity betrays the public trust and is, by definition, unethical. In addition, auditors may identify instances of unethical conduct that result in waste and abuse during testing of internal controls as part of a performance audit.

Example: In a performance audit assessing agency officials' compliance with conflict-of-interest requirements, auditors may compare a sample of financial disclosure reports filed against requirements in statute or regulation.

Example: In a performance audit assessing potential regulatory capture related to a particular industry, auditors may assess the extent to which the regulatory agency has sufficient controls to reasonably assure its employees' independence from the entities subject to the agency's regulation.

Example: In a performance audit assessing an office's policies and procedures for purchase cards, auditors' testing of the program's controls to identify deficiencies may identify fraud, waste, or abuse in its administration.

Equitable

The administration of a government program or activity is ***equitable*** when it consistently serves members of the public, distributes public services, and implements public policy in a manner that promotes fairness, justice, and equality. Auditing whether the administration of a government program or activity is equitable may include assessing the

- equality of access to and provision of services;

- procedural fairness and equal treatment of individuals in government programs and policies;

- causes of disparate outcomes;

- or distributional impacts of public policies, programs, resources, and services.

Disaggregating data by social groups or communities that share a particular characteristic (e.g., gender, race, ethnicity, age, or income) can help illuminate differences. Reporting on such differences, when appropriate within the context of the audit objectives, can increase understanding of the effects of policies and programs on issues of equity.

Example: In a performance audit assessing the granting of waivers from particular requirements, auditors may use disaggregated data about waiver recipients to assess whether different groups or communities were treated fairly and equally in the process.

Example: In a performance audit assessing a grant program aimed at expanding internet access, auditors may assess the extent to which formulas, criteria, or other factors (such as matching funds or capital requirements) considered in the distribution of grant funds may be to the specific advantage or disadvantage of certain groups, regions, or communities, thereby causing inequities.

Example: In a performance audit assessing scholarship outcomes in higher education programs, auditors may report on the distribution of scholarships by race, gender identity, and income to illuminate potential disparities among scholarship recipients.

These concepts may overlap. For example, efficiency may also be a component of effectiveness. Similarly, when appropriate within the context of the program and audit objectives, auditors may disaggregate the results of performance audits that focus on efficiency or effectiveness issues to illuminate inequities in program administration or in distribution of public services.

While all of these concepts are important to administering government programs responsibly, it is up to the professional judgment of the auditors to determine the specific concepts that are relevant in conducting the performance audit and reporting the results. Auditors' professional judgments are informed by, among other things, the needs of the users of the audit reports; the nature, context, and objectives of the program or activity under audit; and the public interest.

For More Information

To view the current Yellow Book, visit https://www.gao.gov/yellowbook.

For technical assistance, call (202) 512-9535 or email yellowbook@gao.gov.